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About Common Sense Economics
The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth Creation and Prosperity" to help teach students why economic understanding is essential for life in today's society to create a study guide for "Part 1: Twelve Key Elements of Economics" and "Part 2: Seven Major Sources of Economic Progress". For more information about "Common Sense Economics", check out this module!

About Common Sense Economics

James Gwartney, Richard Stroup, Dwight Lee, Tawni Ferrarini, and Joseph Calhoun Hardcover, 261 pages Published by St. Martin’s Press, 2016

Common Sense Economics is a highly readable book. It is written for those individuals wanting to understand how the economy works, what can be done to generate wealth, and how to make sound economic choices and financial decisions. This book covers the basic concepts of economics and applies them to both political and personal decision-making. It is divided into four parts: (1) Twelve Key Elements of Economics, (2) Seven Major Sources of Economic Progress, (3) Economic Progress and the Role of Government, and (4) Twelve Key Elements of Practical Personal Finance.

Key concepts such as scarcity, gains from trade, marginal decision-making, profits and losses, the sources of income growth, and the invisible hand are highlighted and discussed in Part 1. Part 2 applies the basic concepts to wealth creation and highlights the importance of private ownership, competition, monetary stability, low taxes, and open trade. Part 3 explains how the political process works, considers why it often goes awry, and makes suggestions for improvement. Part 4 focuses on personal decision-making and provides readers with ideas and resources on how to make strategic career and financial choices. This book covers what people really need to know in order to be savvy consumers, sophisticated investors, and dynamic citizens.

To buy *Common Sense Economics: What Everyone Should Know about Wealth and Prosperity* and find even more quality supplements, economic examples, quick links to cool stuff, information on a full multi-media course package and workshop announcements on how to get trained to teach a course using the package in a seated or online setting, check out https://commonsenseeconomics.com.

1. Incentives Matter.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 1, incentives.

Element of Economics

Incentives matter. Changes in benefits and costs will influence choices in a predictable manner.

Video

https://www.youtube.com/embed/ML3Ai7XIPfk

"Do Incentives Matter for the Economy?"
by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=ML3Ai7XIPfk

Exercises

Exercise:

Problem:
The basic postulate of economics indicates that changes in incentives influence the

a. actions of producers but not consumers.

b. actions of consumers but not producers.
c. choices of individuals only when they buy and sell goods in the marketplace.
d. choices of individuals with regard to a wide range of activities, including those generally perceived as social or political.

Solution:

d: choices of individuals with regard to a wide range of activities, including those generally perceived as social or political.

Exercise:

Problem:
When government mandates that manufacturers of automobiles are to increase fuel efficiency, the incentives matter postulate of economics indicates that

a. consumers will positively adjust their driving habits, eventually increasing time on the road and carbon emissions.
b. there will be an increase in the supply of high gas-consumption vehicles, especially Special Utility Vehicle's (SUVs).
c. consumers will fail to adjust their driving habits, placing upward pressure on the price of gas.
d. fewer trips to the pump will boost tax revenues collected by the owners of gas stations which are slotted to cover repairs and maintenance.

Solution:

a: consumers will positively adjust their driving habits, eventually increasing time on the road and carbon emissions.

2. There Is No Such Thing As A Free Lunch.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 2, scarcity and opportunity costs.

Element of Economics

There is no such thing as a free lunch; goods are scarce and therefore we have to make choices.

Video

https://www.youtube.com/embed/9QfLr6V1TO8

"Opportunity Cost" by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=9QfLr6V1TO8

Exercises

Exercise:

Problem:
Which of the following students would be most likely to drop out of college before completing their undergraduate degree?

a. a senior physics major with a solid B average

b. a junior majoring in secondary education who has discovered that the Bureau of Labor Statistics projects that there is strong growth in job opportunities for teachers
c. an outstanding baseball player in his junior year that just received a $500,000 offer from a professional team
d. a junior economics major who wants to attend law school.

Solution:

c: an outstanding baseball player in his junior year that just received a $500,000 offer from a professional team

Exercise:

Problem:
Susan is trying to decide whether to quit her $20,000 per year job so she can return to college next year as a full time student. If she goes to college next year, her books and supplies will cost $500, tuition will cost $9,000, and her other expenses (transportation, housing, and food) will increase by $2,000. What is Susan's opportunity cost of attending college next year?

a. $31,500
b. $11,500
c. $9,000
d. $2,500

Solution:

a: $31,500

3. Decisions Are Made At The Margin.
The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 3, marginal costs and benefits.

Element of Economics

Decisions are made at the margin: If we want to get the most out of our resources, options should be chosen only when the marginal benefits exceed the marginal cost.

Video

https://www.youtube.com/embed/tMhdTn-5fu8

"Thinking at the Margin" by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=tMhdTn-5fu8

Exercises

Exercise:

Problem:
Why are diamonds more expensive than water?

a. People value diamonds more than water

b. It takes more capital investment to extract water than diamonds
c. There are price floors on water, but not on diamonds
d. The marginal utility of water decreases faster than the marginal utility of diamonds

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Solution:

d: The marginal utility of water decreases faster than the marginal utility of diamonds

Exercise:

Problem:
According to economic reasoning, you should follow Nike's advice and "Just Do It" when

a. the total benefits are less than the total costs.
b. the additional costs are greater than the additional benefits.
c. the additional costs are the same as the additional benefits.
d. the additional benefits are greater than the additional costs.

Solution:

d: the additional benefits are greater than the additional costs.

4. Trade Promotes Economic Progress.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 4, trade.

Element of Economics

Trade promotes economic progress.

Video

https://www.youtube.com/embed/uXMnAPGY1uE

"Foreigners Are Our Friends - Econ Chronicles" by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=uXMnAPGY1uE

Exercises

Exercise:

Problem:
Free trade helps our economy in which of the following ways?

a. One country gains at the expense of another
b. Relatively high cost goods, services and resources are imported

c. Trading partners both benefit, raising the standard of living in each country
d. Domestic production and employment shrink and prices rise.

Solution:

c: Trading partners both benefit, raising the standard of living in each country.

Exercise:

Problem:
Who gains in a voluntary international trade?

a. Only the exporter
b. Only the importer
c. Both the exporter and importer
d. Both the exporter and importer, especially the exporter

Solution:

c: Both the exporter and importer

5. Prices Bring The Choices Of Buyers And Sellers Into Balance.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 6, the price system.

Element of Economics

Prices bring the choices of buyers and sellers into balance.

Video

https://www.youtube.com/embed/WPy-QKXofQs

"What Do Prices 'Know' That You Don't?"
by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=WPy-QKXofQs

Exercises

Exercise:

Problem:
How was Moe Cashferme able to determine which crop was most demanded by society? By:

a. researching what crops are best for society

b. paying attention to the crop in which consumers paid the highest price
c. consulting with friends and family members
d. making a lucky guess

Solution:

c: consulting with friends and family members

Exercise:

Problem:
When individuals are directed by prices determined in competitive markets, their actions will tend to promote the productive use of resources:

a. only if buyers and sellers personally care about economic efficiency
b. even when each market participant cares only about their own self-interest rather than the overall efficiency of resource use
c. even if business firms fail to produce goods efficiently
d. if, and only if, businesses recognize their social obligation to keep costs low and use resources wisely

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Solution:

b: even when each market participant cares only about their own self-interest rather than the overall efficiency of resource use.

6. Transaction Costs Are An Obstacle To Trade.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 5, transaction costs.

Element of Economics

Transaction costs are an obstacle to trade.

Video

https://www.youtube.com/embed/7njIlZ2xYq0

"Free Trade vs. Protectionism" by the
Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=7njIlZ2xYq0

Exercises

Exercise:

Problem:
Which statement can be supported by research and data regarding protectionism?

a. The primary tool of protectionism is the sales tax on goods and services in the United States

b. Protectionism favors the production of foreign goods and services over domestic outputs
c. The cost of tariffs is passed onto consumers in the form of higher prices
d. Protectionism fueled economic growth in Hong Kong and the United States.

Solution:

c: The cost of tariffs is passed onto consumers in the form of higher prices.

Exercise:

Problem:
Which of the following statements reflect sound economic reasoning?

a. Foreign competition will reduce the wealth of Americans
b. If it is more economical to acquire a good through trade than by self-production, it makes sense to trade for it
c. If domestic production of a good will employ lots of people, the good should be produced domestically
d. Higher tariffs will increase the total volume of international trade.

Solution:

b: If it is more economical to acquire a good through trade than by self-production, it makes sense to trade for it.

7. Profits Direct Businesses To Increase The Value Of Resources.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 7, profits and losses.

Element of Economics

Profits direct businesses toward productive activities that increase the value of resources, while losses direct them away from wasteful activities that reduce resource value.

Video

https://www.youtube.com/embed/YPDUMEQAIL0

"The Price System, Part 2: Profits & Losses"
by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=YPDUMEQAIL0

Exercises

Exercise:

Problem:
How does a business earn a profit? By:

a. producing efficiently and keeping their costs low

b. producing goods and services that consumers value highly relative to costs
c. discovering and developing better products and lower-cost production methods
d. engaging in all of the above.

Solution:

d: engaging in all of the above.

Exercise:

Problem:
When resources are allocated by markets, profits and losses provide information about:

a. which resources are being used productively and which resources should be allocated to other uses
b. which products are priced too high and which are priced too low
c. which industries need to be subsidized and which need to be subject to additional regulation
d. which businesses should be taxed more heavily and which should be subsidized.

Solution:

a: which resources are being used productively and which resources should be allocated to other uses.

8. People Earn Income By Helping Others.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 8, entrepreneurship.

Element of Economics

People earn income by helping others.

Video

https://www.youtube.com/embed/ChEImWVj_kY

"Are Entrepreneurs Modern Day Heroes?"
by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=ChEImWVj_kY

Exercises

Exercise:

Problem:
How do entrepreneurs help individuals across income-levels, races, genders, religions, and more? They:

a. Create new goods and services
b. Lower prices and increase the availability of goods and services

c. Fuel economic growth and prosperity
d. Do all of the above

Solution:

d: Do all of the above

9. Production Of Goods And Services People Value Raises Living Standards.

The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 9, the source of high living standards.

Element of Economics

Production of goods and services people value, not just jobs, provides the source of high living standards.

Video

https://www.youtube.com/embed/fEbdgpIQ7n4

"Make Progress, Not Work - Econ Chronicles" by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=fEbdgpIQ7n4

Exercises

Exercise:

Problem:
Which of the following is true about economic progress?

a. New technologies often disrupt existing jobs and cause unemployment in the short term
b. It is very difficult to predict the new ideas and jobs that will come about from economic progress
c. Economic progress is the best social insurance against disasters
d. All of the above

Solution:

d: All of the above

Exercise:

Problem:
Economic progress:

a. reflects that people are achieving higher income levels and living standards
b. requires that individuals work longer hours
c. indicates that scarcity is no longer a problem
d. indicates income levels are higher even though environmental and health conditions have worsened.

Solution:

a: reflects that people are achieving higher income levels and living standards.

10. Economic Progress Comes Through Trade, Investment, and Sound Economic Institutions.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 10, the sources of economic progress.

Element of Economics

Economic progress comes primarily through trade, investment, better ways of doing things, and sound economic institutions.

Video

https://www.youtube.com/embed/JzmxQOonnGE

"How to Fight Global Poverty" by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=JzmxQOonnGE

Exercises

Exercise:

Problem:
Which of the following contributes to people living in poverty?

a. Stable government and monetary policy

b. Strict controls on entrepreneurs, business, and commerce
c. Poorly defined or enforced property rights
d. Market-friendly environments

Solution:

b: Strict controls on entrepreneurs, business, and commerce

11. Market Prices Direct Buyers And Sellers Toward The General Welfare. The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 11, the "invisible hand".

Element of Economics

The "invisible hand" of market prices directs buyers and sellers toward activities that promote the general welfare.

Video

https://www.youtube.com/embed/EBifN69gcKY

"Adam Smith: The Invisible Hand" by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=EBifN69gcKY

Exercises

Exercise:

Problem:
What is the importance of Adam Smith's invisible hand?

a. Countries that do not specialize and make use of the division of labor are wealthier than those that do not

b. Markets enable people who are acting in their own self-interest to benefit other people by serving them
c. Governments can successfully centrally plan the economy and fuel overall prosperity
d. Markets help wealth countries to become wealthier and poor countries stay poor.

Solution:

b: Markets enable people who are acting in their own self-interest to benefit other people by serving them.

Exercise:

Problem:
Which of the following is a major implication of the invisible hand concept?

a. When directed by competitive market prices, the actions of self-interested individuals will tend to promote overall economic prosperity
b. Prosperity cannot be achieved unless the selfish nature of people can be changed
c. Competition is harmful to the health of an economy because it results in wasteful duplication
d. Government-operated firms tend to have lower costs than private sector firms.

Solution:

a: When directed by competitive market prices, the actions of self-interested individuals will tend to promote overall economic prosperity.

12. Secondary Effects Are Often Ignored.
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module covers Element 12, secondary effects and unintended consequences.

Element of Economics

Too often long-term consequences, or the secondary effects, of an action are ignored.

Video

https://www.youtube.com/embed/erJEaFpS9ls

"The Broken Window Fallacy" by the Institute for Humane Studies

Watch on YouTube
https://www.youtube.com/watch?v=erJEaFpS9ls

Exercises

Exercise:

Problem:
What is the broken window fallacy?

a. Disasters benefit the overall economy because they result in net job increases

b. Government can ignore the unintended consequences of fiscal and monetary policy
c. Disasters negatively impact the economy because money spent rebuilding during the aftermath had alternative uses
d. Government intervention leads to strategic investment, efficient production, and prudent consumption.

Solution:

c: Disasters negatively impact the economy because money spent rebuilding during the aftermath had alternative uses.

Exercise:

Problem:
"Mediocre economists often consider only the immediate direct effects of a change, whereas a good economist will also consider indirect effects and unintended consequences that may only become observable over time." This statement most clearly emphasizes:

a. economizing behavior
b. the importance of secondary effects
c. the gains derived from voluntary exchange
d. the importance of price signaling

Solution:

b: the importance of secondary effects.

Discussion Questions
The Institute for Humane Studies has partnered with Common Sense Economics: What Everyone Should Know about Wealth and Prosperity to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 1: Twelve Key Elements of Economic". This module includes discussion questions to get students thinking about what they learned in Part 1.

Discussion Questions

In this program, you learned about twelve key economic concepts.

1. Which concept did you find most enlightening? How can you use it to live a more fulfilling and economically secure life?
2. Which concept is most misunderstood by others? Why? How would you explain it to someone who has never heard of it before?
3. Which concept is still not clear to you personally?

1. The Foundation for Economic Progress Is a Legal System that Protects Privately Owned Property and Enforces Contracts in an Evenhanded Manner.

The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 2: Seven Major Sources of Economic Progress". This module covers Element 1, legal systems.

Element of Economics

Legal system: The foundation for economic progress is a legal system that protects privately owned property and enforces contracts in an evenhanded manner.

Video

https://www.youtube.com/embed/xb9J7K0TX3s

"Property Rights as a Response to a Problem" by the Institute for Humane Studies

Exercises

Exercise:

Problem:

A legal system that protects private property and enforces contracts in an even-handed manner helps promote economic growth because it

a. makes it possible for individuals to generate large incomes and get ahead without cooperating with others.
b. provides people with a strong incentive to supply others with things that they value at an economical price.
c. encourages people to use resources now rather than conserving them for the future.
d. keeps the real wages of workers low and, thereby, makes it possible for business firms to supply goods and services economically.

Solution:

b. provides people with a strong incentive to supply others with things that they value at an economical price.

Exercise:

Problem:

Secure property rights promote economic progress because they

a. encourage individuals to produce efficiently and undertake productive investments.
b. weaken incentives to take actions that increase the value of resources.
c. transfer the costs of a decline in property value to the government.
d. discourage property owners from engaging in activities that provide value to others.

Solution:

a. encourage individuals to produce efficiently and undertake productive investments.

Discussion Questions

1. Can the owners of private property do anything they want with the things they own? Explain your answer. Why are secure rights to private property important for economic growth and overall prosperity?
2. Define the Tragedy of the Commons. Explain why it occurs. Illustrate it using the “The Tragedy of the Beavers.”
3. Discuss how private property rights with respect to hunting emerged in the Southwest. Compare with how they emerged with respect to farming in the Northeast. Explain the difference.

Video

https://www.youtube.com/embed/jnjPFZV8Wqo

"The Power of Property Rights" by the
Institute for Humane Studies

Exercises

Exercise:

Problem:

Which of the following is a private owner prohibited from doing?

a. Selling the property to another person.
b. Erecting a fence designed to keep others from using the property.
c. Painting the property a color that others do not like.
d. Using the property in a manner that invades or infringes on the property of another.

Solution:

d. Using the property in a manner that invades or infringes on the property of another.

Exercise:

Problem: Private ownership of property

a. provides owners with an incentive to maintain and conserve resources.
b. creates an incentive for owners to ignore the wishes of others.
c. causes the Tragedy of the Commons to occur.
d. leads to the overuse of resources.

Solution:

a. provides owners with an incentive to maintain and conserve resources.

Discussion Questions

1. Do private owners have an incentive to conserve resources like oil or trees for the future? Would a 65 year-old farmer have an incentive to plant a crop of Douglas fir trees that might not be ready for harvest until 50 years from now? Why or why not?
2. Do the owners of private property have an incentive to care for and maintain their property? Why or why not?
3. Does private ownership encourage people to develop their property in ways that are highly valued by others and to engage in productive activities? Explain.

2. Competition Promotes the Efficient Use of Resources and Provides the Incentive for Innovative Improvements.
The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 2: Seven Major Sources of Economic Progress". This module covers Element 2, competitive markets.

Element of Economics

Competitive markets: Competition promotes the efficient use of resources and provides the incentive for innovative improvements.

Video

https://www.youtube.com/embed/YPDUMEQAIL0

"The Price System, Part 2: Profits & Losses"
by the Institute for Humane Studies

Exercises

Exercise:

Problem:

When competition is present and private ownership rights are clearly defined and securely enforced by the legal system, business firms will have a strong incentive to

a. innovate and develop better products and lower cost production methods.
b. spend time attempting to plunder (take) the resources of others.
c. engage in wasteful activities that increase the cost of producing goods and services.
d. use resources during the current period rather than conserving them for the future.

Solution:

a. innovate and develop better products and lower cost production methods.

Exercise:

Problem:

If a business is realizing economic losses in a competitive market, it is

a. price gouging its customers.
b. exploiting its workers.
c. producing goods and services in a market that is characterized by high entry barriers.
d. producing goods and services that are valued less than the resources required to produce them.

Solution:

d. producing goods and services that are valued less than the resources required to produce them.

Discussion Questions

1. How does intense competition in a market influence prices? How about the quality of goods and services?

2. Should we prevent private producers from going out of business, by having the government subsidize them? Why or why not? (Think about the roll that losses play in the competitive marketplace.)
3. Why is competition important in a market economy? (Think about high-cost producers versus low-cost producers.)

3. Regulatory Policies that Reduce Exchange and Restrict Competition Impede Economic Progress.
The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 2: Seven Major Sources of Economic Progress". This module covers Element 3, limits on government regulation.

Elements of Economics

Limits on government regulation: Regulatory policies that reduce exchange and restrict competition impede economic progress.

Video

https://www.youtube.com/embed/qvsPXKJe05Q

"Free Market Economics: Uber, Airbnb, & Feastly vs Government Regulation" by the Institute for Humane Studies

Exercises

Exercise:

Problem:

Regulations that make it difficult to start a business or enter a particular job market are harmful because

a. they reduce competition and prevent some voluntary exchanges from occurring.
b. they fail to stop business exploitation of workers and consumers.
c. they cause profits to become more unpredictable.
d. they reduce tax revenue collected.

Solution:

a. they reduce competition and prevent some voluntary exchanges from occurring.

Exercise:

Problem:

Regulations are sometimes used by existing firms to prevent new firms from entering an industry. When this happens,

a. consumers are protected from the disruptive effect of new technology.
b. consumers are made worse off because they will generally have fewer choices and confront higher prices.
c. potential new firms can easily form a special interest group in order to gain entry.
d. the intensity of competition in the market will increase.

Solution:

b. consumers are made worse off because they will generally have fewer choices and confront higher prices.

Discussion Questions

1. How do regulatory requirements affect the cost of doing business? How do they impact the complexity associated with opening a

business? And, in turn, how does this impact overall growth and prosperity?

2. Explain how comparative advantage and specialization influence the total, joint output produced by trading partners. How does operation on the basis comparative advantage relate to increases in the gains from trade realized by each trading partner?
3. Why do some established firms and industries lobby the government to create regulations that make it burdensome for new individuals to start a business and enter the existing market? How do these efforts impact consumers?

4. To Realize Its Potential, a Nation Must Have a Mechanism that Channels Capital into Wealth-Creating Projects.
The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 2: Seven Major Sources of Economic Progress". This module covers Element 4, efficient capital markets.

Element of Economics

An efficient capital market: To realize its potential, a nation must have a mechanism that channels capital into wealth-creating projects.

Video

https://www.youtube.com/embed/EExVqkbSwFk

"Economic Freedom and Growth" by the
Institute for Humane Studies

Exercises

Exercise:

Problem:

Economic growth is important because expansion in the output of goods and services

a. necessarily creates more jobs (more work for people) but doesn’t always result in higher income.

b. makes it possible for individuals to consume more and achieve higher living standards.
c. leads to an increase in the general level of prices.
d. generates additional tax revenues for the government.

Solution:

b. makes it possible for individuals to consume more and achieve higher living standards.

Exercise:

Problem:

Which of the following is most important if a country is going to achieve and sustain rapid economic growth?

a. Large government expenditures as a share of GDP.
b. Institutions and policies that are supportive of private property rights, competition, and freedom of exchange.
c. Trade restrictions that keep cheap foreign goods out of the domestic market.
d. Monetary policy makers who are willing to expand the supply of money rapidly.

Solution:

b. Institutions and policies that are supportive of private property rights, competition, and freedom of exchange.

Discussion Questions

1. Without using the jargon of economics, explain why living standards are higher today than they were 50 years ago. Are there more natural resources today than 50 years ago? How have nations with few natural resources been able to grow?

2. Why is economic growth important to ordinary folks? What types of measures are impacted from economic growth? How can economic growth be associated with other measures of well-being?
3. What did the video say about how North and South Korea provide us with a natural experiment to analyze the impact that economic freedom has on a nation’s growth and other well-being measures?

5. A Stable Monetary Policy is Essential for the Control of Inflation, Efficient Allocation of Investment, and Achievement of Economic Stability. The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 2: Seven Major Sources of Economic Progress". This module covers Element 5, monetary stability.

Element of Economics

Monetary stability: A stable monetary policy is essential for the control of inflation, efficient allocation of investment, and achievement of economic stability.

Video

https://www.youtube.com/embed/ZkyBnaYCUhw

"Why Not Print More Money?" by the Institute for Humane Studies

Exercises

Exercise:

Problem: When the inflation rate is high and volatile,

a. investment is more risky and gains from trade are reduced.
b. investment is less risky and gains from trade are reduced.
c. real output and real wages will grow rapidly.

d. employment will expand and the unemployment rate will decline.

Solution:

a. investment is more risky and gains from trade are reduced.

Exercise:

Problem:

When the money supply is expanding rapidly and the general level of prices increasing sharply, economic growth is

a. enhanced as economic activity grows more rapidly.
b. enhanced because profits are higher so that capital investment is greater.
c. enhanced because existing debt is reduced in value, so people are willing to buy more goods.
d. slowed by the resulting unpredictability of the future level of prices.

Solution:

d. slowed by the resulting unpredictability of the future level of prices.

Discussion Questions

1. What causes inflation? How is it different from a price increase in one good or service?
2. Does increasing the money supply (printing more dollar bills) increase the real wealth of individuals living in a nation?
3. How does inflation impact one’s incentive to invest? How will inflation’s impact on investment in turn impact economic growth?

6. People Produce More when They Can Keep More of What They Earn. The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 2: Seven Major Sources of Economic Progress". This module covers Element 6, low tax rates.

Element of Economics

Low tax rates: People produce more when they can keep more of what they earn.

Video

https://www.youtube.com/embed/TGI6aV-XuQw

"Why is Beer So Expensive? - Craft Beer 103" by the Institute for Humane Studies

Exercises

Exercise:

Problem: Economic analysis indicates that high tax rates will

a. reduce productive activity.
b. impede capital formation.
c. promote wasteful use of resources.
d. all of the above.

Solution:

d. all of the above.

Exercise:

Problem: An increase in marginal tax rates will

a. reduce the share of additional earnings that individuals are permitted to keep.
b. increase the incentive of individuals to earn additional income.
c. allow taxpayers to keep more of what they earn.
d. make tax deductible purchases more expensive.

Solution:

a. reduce the share of additional earnings that individuals are permitted to keep.

Discussion Questions

1. How do taxes and regulations impact the price of the craft beer in the video?
2. How do increased levels of taxes and regulations impact an entrepreneur’s decision of whether to open a business in a given industry? What would happen to the number of suppliers in a market if these barriers were lessened, and how would this in turn impact the price, quality, and options of the products in that market?
3. How do increased tax levels impact an individual or firm’s incentive to produce more?

7. People Achieve Higher Incomes when They Are Free to Trade with People in Other Countries.
The Institute for Humane Studies has partnered with "Common Sense Economics: What Everyone Should Know about Wealth and Prosperity" to help teach students why economic understanding is essential for life in today's society. With videos and quiz questions corresponding to each chapter, this collection can be used as a study guide to supplement "Part 2: Seven Major Sources of Economic Progress". This module covers Element 7, free trade.

Element of Economics

Free trade: People achieve higher incomes when they are free to trade with people in other countries.

Video

https://www.youtube.com/embed/7njIlZ2xYq0

"Free Trade vs. Protectionism" by the
Institute for Humane Studies

Exercises

Exercise:

Problem:

International trade is advantageous because trade makes it possible for people in each country to

a. import more than they export.
b. export more than they import.

c. employ more of their domestic resources producing things that are costly for them to produce domestically.
d. acquire goods from foreigners more economically than they could be produced domestically.

Solution:

d. acquire goods from foreigners more economically than they could be produced domestically.

Exercise:

Problem:

When the residents of a nation are free to trade with foreigners, domestic producers will be able to

a. export more of those goods for which they are a high-cost suppliers.
b. supply a larger quantity of those goods which they can produce at relatively low costs.
c. charge higher prices than would otherwise be the case.
d. survive in the marketplace even if they do not produce efficiently.

Solution:

b. supply a larger quantity of those goods which they can produce at relatively low costs.

Discussion Questions

1. Why do you trade for things rather than produce them yourself? Would you be better off if you did not buy so many things from others? Would Americans in general be better off if they did not buy so many things from foreigners?

2. When an individuals in one nation trade with individuals in another nation, is one party made worse off?
3. Why do you think the average person is likely to agree with and implement the law of comparative advantage, specialization, and trade within the borders of their own nation, but less likely to agree with these same concepts when it comes to international trade? Would implementing trade barriers between countries make consumers better off?

Video

https://www.youtube.com/embed/uXMnAPGY1uE

"Foreigners Are Our Friends - Econ Chronicles" by the Institute for Humane Studies

Exercises

Exercise:

Problem: Trade restrictions like tariffs and quotas will

a. protect American jobs and increase employment.
b. ensure that more dollars stay in the United States.
c. reduce the value of goods and services that we will be able to produce and consume.
d. make all Americans better off.

Solution:

c. reduce the value of goods and services that we will be able to produce and consume..

Exercise:

Problem:

If the United States imposed higher tariffs and bought less from foreigners,

a. U.S. employment would increase.
b. unemployment in the United States would decline.
c. U.S. exports would also increase because foreigners would want to buy more from U.S. producers.
d. U.S. exports would decline because foreigners would be earning fewer of the dollars needed to purchase goods and services from Americans.

Solution:

d. U.S. exports would decline because foreigners would be earning fewer of the dollars needed to purchase goods and services from Americans.

Discussion Questions

1. Do import restrictions create economic prosperity for the nation imposing the restrictions? If not, who is pushing for such import restrictions? (Think about who has the incentive to lobby for these restrictions.)
2. If the United States imposed higher tariffs and more restrictive quotas in an attempt to reduce imports into the U.S., would U.S. exports also be impacted? (Think about how the tariffs and quotas will impact foreigner' ability to earn U.S. dollars, which are needed to purchase goods and services that Americans are trying to export to other nations.)
3. Who is hurt by trade restrictions? Who benefits?

Video

https://www.youtube.com/embed/dH5VDZY2H28

"Economic Freedom and a Better Life" by
the Institute for Humane Studies

Exercises

Exercise:

Problem: Increased economic freedom is associated with

a. greater economic growth.
b. longer life expectancy.
c. higher incomes for the poor.
d. all of the above.

Solution:

d. all of the above.

Exercise:

Problem:

In order to achieve a high economic freedom rating, a country must

a. elect political officials democratically.
b. protect property rights, enforce contracts even-handedly, and rely extensively on markets to allocate goods and services.
c. provide citizens with housing, health care, and other basic goods free of charge.

d. use the taxing power of the state to redistribute income from the rich to the poor and thereby promote income equality.

Solution:

b. protect property rights, enforce contracts even-handedly, and rely extensively on markets to allocate goods and services.

Discussion Questions

1. What are the major sources of economic progress? What types of institutions are most conducive for economic growth and prosperity?
2. What does economic freedom mean? (What are the cornerstones of economic freedom, according to the video?)
3. What does the video say about how economic freedom impacts income levels (GDP per capita)? What about life expectancy? How does economic freedom impact negative things such as child labor and political corruption?